

**AGENDA ITEM 4  
RESOLUTION OF REAL ESTATE AUDIT FINDINGS  
CURRENT FISCAL YEAR  
AS OF JUNE 30, 2005**

Partner/Property	Auditor's Finding and Recommendation	Status per Investment Office	Auditor Comment
<b>Mercantile-Safe Deposit &amp; Trust Company - as Trustee</b>	<p><b>3. (IV) Annual Consulting Fees</b> - Based on the Auditor's review of the Trust's general ledger, it was determined that 2003 annual consulting fees paid to the Townsend Group have been allocated and paid from Trust Assets in the total amount of \$53,333. According to the Trustee, one-third of the annual consulting fees of \$160,000 have been allocated to the Trust. According to page 34 of the Investment Memorandum, the Trustee shall bear the cost of general administrative expenses. Section (iii) of the general administrative expense definition includes in part, "General administrative expenses are those costs and expenses that are...annual fees paid to any person or entity engaged by the Trustee to provide services including the identification, evaluation and Recommendation of proposed investments for the Trust." According to page 33 of the Investment Memorandum, the only fees payable from the Trust Assets are those fees relating to acquisitions and performance incentive payments regarding equity investments and participating mortgages. All other advisory fees shall be paid from the Trustee's fee.</p> <p><b>Recommendation</b> - The Auditors recommended that the Trustee reimburse the Trust for 2003 allocated consulting fees in the total amount of \$53,333. In the absence of an amendment to the Investment Memorandum, the Auditors further recommended that payment of such consulting fees adhere to the guidelines set forth in the Investment Memorandum dated July 1, 1999.</p>	<p><b>3. (IV) Mercantile-Safe Deposit &amp; Trust Company response</b>, "The Draft Report appears to assume that Townsend is providing substantially the same services as the Investment Advisors (note the discussion under part IV of the Report and the reference there to portions of the Investment Memorandum addressing Investment Advisor fees). While there may be some overlap, Townsend's services are significantly different from those of the Investment Advisors. A major component of Townsend's services includes assisting the Trustee in reviewing and negotiating agreements with the Investment Advisors, providing input with respect to industry standards and practice and fee structure and levels..."</p> <p><b>INVO:</b> AFL-CIO BIT is in the process of reviewing the contract of Townsend, specifically identifying the consultant's services provided - See Nov 2, 2004, letter sent by Manager, for reference.</p>	<p><b>3. PENDING: (IV)</b> The Auditors concur with the Trustee's response, pending completion of separate consulting contracts with Townsend, specifically identifying the consultant's services provided for such annual fees.</p>

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<b>SHP Asset Management LLC –  General Partner Level</b>	<p><b>1. (II) Information Technology Disaster Recovery and Resumption Plans</b> - Based on inquiries made with the Director of Information Technology, it was noted that SHP does not have complete and formal written policies and procedures documenting the resumption plans for information technology in the event of a blackout. During audit fieldwork, the auditor received a summary listing of SHP's safeguard procedures regarding data and information back-up.</p> <p><b>Recommendation</b> - The Auditors recommend that SHP complete and distribute an IT Disaster Recovery and Resumption Plan to key personnel within the company. A completed Disaster Recovery Plan specifying the preparations prior to a disaster and the procedures to be completed by key personnel immediately thereafter are critical to the success of SHP's recovery from such an event.</p>	<p><b>1. (II) SHP Asset Management, LLC Response</b> , "SHP will be implementing the Recommendation."</p>	<p><b>1. <u>PENDING:</u> (II)</b> The Auditors concur with SHP's planned corrective actions.</p>

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<b>SHP Asset Management LLC –  General Partner Level</b>	<p><b>2. (V) Asset Management</b> - The Auditors noted that the September 30, 2003 monthly reporting package for the three properties as prepared by the property manager did not include a marketing report showing recent activity pertaining to leads, deposits or wait list data. Exhibit "A" of the Johnson Ezell Corporation Management Agreement states in part that the following reports shall be submitted including a "Marketing report showing activities for the month and leads, deposits, wait list data."</p> <p><b>Recommendation</b> - The Auditors recommend that a marketing report showing monthly activity pertaining to leads, deposits and wait list data be included in the future monthly reporting packages to SHP as stipulated in Exhibit "A" of the property management agreement.</p>	<p><b>2. (V) SHP Asset Management LLC response,</b> "Please note that such a marketing report has been submitted monthly by Johnson Ezell since the inception of their management contract. The report was being submitted separately from the overall monthly financial reporting package, which may be why it was noted as missing. SHP would be happy to supply copies of any monthly report."</p>	<p><b>2. <u>PENDING:</u> (V) CONCUR:</b> Based on the Auditors review of the marketing report for the period ended September 30, 2003 subsequent to audit fieldwork, it was determined that the Recommendation noted above is not considered necessary.</p>

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<b>SHP Asset Management LLC</b>  <b>Johnson Ezell Corporation – Property Management Level</b>	<p><b>1. (II) Property Management Agreement</b> - Third Party Insurance Coverage - During the Auditor's review of the Property Management Agreements for Regency Oaks and South Port Square, it was noted that the agreements do not contain terms for third-party contractor insurance coverage requirements. Based on prior audit experience, property management agreements should contain minimum insurance requirements for its third-party contractors. The types of insurance, minimum policy amounts, and additional insured entities are specifically identified as a common business practice.</p> <p><b>Recommendation</b> - The Auditors recommend that property management amend the property management agreement under the direction of SHP to include required insurance coverages of its third-party contractors.</p>	<p><b>1. (II) SHP Asset Management LLC response,</b> "Section 4.5 (g) Service Contracts of the management agreement requires the management company to include, where possible, indemnification provisions covering the owner and management company in all third-party contracts. Specific insurance requirements for vendors and contractors have been addressed as part of implementation of the CalPERS' Risk Management and Insurance Program."</p>	<p><b>1. <u>PENDING:</u></b> (II) Notwithstanding SHP's response, the Auditor further recommended that the property management agreement section 4.5 (g) refer to the minimum requirements of the CalPERS' Risk Management and Insurance Program for third-party contractors.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>2 (III) Segregation of Duties</b> - During the Auditor's review of cash disbursements, it was noted that there is one fiscal employee assigned to each of the three properties managed by Johnson Ezell Corporation (JEC). Each property's fiscal employee is responsible for recording cash collections, disbursements, preparing general ledger journal entries, and completing monthly bank reconciliations. The Auditors also noted that journal entries prepared by each property's fiscal employee are not approved by a reviewer independent from the recording functions surrounding the general ledger.</p> <p><b>Recommendation</b> - The Auditors recommend that the cash receipts, cash disbursements, preparation of journal entries, and reconciliation of bank statements functions be segregated between the three fiscal staff such that one fiscal staff person does not have complete control over the cash receipts and cash disbursement recording functions of a property. The Auditors further recommend that a management employee review and approve journal entries prepared by a fiscal employee prior to posting to the general ledger.</p>	<p><b>2. (III) SHP Asset Management LLC response</b> "SHP will discuss these findings with Johnson Ezell and determine what actions may be appropriate."</p>	<p><b>2. <u>PENDING:</u></b> Resolution of audit finding pending.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>3. (IV) General Ledger Invoice Testing</b> - Based on a review of sampled vendor invoices, the Auditors noted that vendor invoices are addressed and paid from the Nursing Facility adjacent to the Regency Oaks and South Port Square properties. The Johnson Ezell Corporation provides business office services to the investment properties through a Shared Services Agreement between the investment properties and Harbour Health Systems, owned and operated by the Johnson Ezell Corporation. Many of the sampled invoices tested were addressed to the Nursing Facility at each property. Therefore, the Auditors were unable to determine that the invoice under review was for material and/or services attributable to the Nursing Facility or to the investment properties in accordance with their respective property management agreement. The Regency Oaks and South Port Square properties and their respective Nursing Facilities are on the same grounds comprising the independent living communities. The business office services performed by the Nursing Facility include accounts payable, accounts receivable, payroll and personnel.</p> <p><b>Recommendation</b> - The Auditors recommend that property management request vendor invoices with sufficient detail documenting the material and/or services incurred by the investment properties and Nursing Facilities. In those cases, where the costs cannot be specifically identified to the investment properties, then an appropriate cost allocation process should be developed and implemented upon approval from SHP.</p>	<p><b>3. (IV) SHP Asset Management LLC response</b>, "SHP will discuss these findings with Johnson Ezell and determine what actions may be appropriate."</p>	<p><b>3. <u>PENDING:</u></b> (IV) PENDING: Resolution of audit finding pending.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>4. (IV) Professional Fees</b> - During a review of professional fee expenditures, the Auditors noted that professional audit fees totaling \$55,474 were paid to Grant Thornton, LLP for the completion of Johnson Ezell Corporation's calendar year 2002 financial audit, which was for a period prior to SHP Senior Housing Fund's investment in the properties. The Auditors also noted that professional audit fees totaling \$5,677 and \$1,700 were paid to Grant Thornton, LLP during calendar year 2003 for a 401K and Office of Insurance Regulation, Department of Financial Services audit, respectively. Grant Thornton is not an allowable professional services firm in accordance with the provisions of Schedule 4.7(e) to the Property Management Agreement.</p> <p><b>Recommendation</b> - In the absence of SHP's written approval, the Auditors recommended that property management refund the portfolio properties their allocated portions of professional services paid to Grant Thornton for the 2002 annual audit, 2003 401K audit, and Department of Financial Services audit totaling \$55,474, \$5,677, and \$1,700, respectively. The Auditors further recommended that property management refrain from contracting professional service firms not included on Schedule 4.7 (e) of the Property Management Agreement.</p>	<p><b>4. (IV) SHP Asset Management LLC response</b>, "SHP will discuss these findings with Johnson Ezell and determine what actions may be appropriate."</p>	<p><b>4. <u>PENDING:</u></b> (IV) PENDING: Resolution of audit finding pending.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>5. (IV) Capital Improvement Budgets</b> - During a review of the capital improvement budgets for the Regency Oaks and South Port Square properties, the Auditors noted that the total capital budgets for each of the properties was fully expended during the 2003 fiscal year, however the approved budget line items were significantly under expended for both properties with the committed budget savings used for capital expenditures. Regency Oaks and South Port Square under expended approved budget line items by more than 18% and 23%, respectively. The committed budget savings were used for such capital expenditures as an ice cream cooler, apartment conversions, time management software, a bingo machine, and new appliances.</p> <p><b>Recommendation</b> - The Auditors recommended that property management obtain and document written approval from SHP for those unanticipated capital improvement items that are not included in the original approved capital budget.</p>	<p><b>5. (IV) SHP Asset Management LLC response</b>, "The ongoing operations of senior housing properties require flexibility in addressing unforeseen capital needs. The approved capital budgets for 2004 now include funding for such events in a contingency line item so as to avoid the condition noted in the report."</p>	<p><b>5. <u>PENDING.</u></b> The Auditor concurred with SHP's corrective actions.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>6. (VI) Property Walk-Through - Regency Oaks</b> - The Auditors performed a walk-through of the Regency Oaks property and found the property to be very attractive and well maintained. However, they did note the following minor issues:</p> <ol style="list-style-type: none"> <li>1. Significant quantities of used paint has been stored in a room on the fourth floor of Building North. The Maintenance Director stated that the property is finalizing a contract with a hazardous waste company to remove the paint in the near future.</li> <li>2. The aggregate floor finish in the enclosed spa area is beginning early stages of deterioration with small amounts of aggregate separation.</li> </ol> <p><b>Recommendation</b> - Specifically for the Regency Oaks property, property management should:</p> <ol style="list-style-type: none"> <li>1. Complete the contracting process for the removal of all used paint cans maintained in the fourth floor storage area of Building 4.</li> <li>2. Patch the small area of aggregate by the spa to prevent further deterioration and monitor overall condition during pressure washing.</li> </ol>	<p><b>6. (VI) SHP Asset Management LLC response,</b></p> <p>"1. Johnson Ezell has since completed the removal of all used paint cans in the storage area of Building 4.</p> <p>2. Johnson Ezell reviewed the condition of the spa area and has determined that maintenance is not warranted at this time."</p>	<p><b>6. <u>PENDING:</u></b> The Auditor concurred with SHP's corrective actions.</p>

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<b>SHP Asset Management LLC –</b>  <b>Johnson Ezell Corporation –</b>  <b>Property Management Level</b>	<p><b>7. (VI) Property Walk-Through - Regency Oaks -</b></p> <ol style="list-style-type: none"> <li>1. There are several used paint cans stored in the maintenance building of the property. Maintenance staff needs to contact a hazardous waste company for removal of those used paint materials that will not be reused.</li> <li>2. A storage area in the maintenance building has tenant secured storage cages with visible flammable materials such as spray paints and coolants stored and inaccessible to staff which presents a potential safety hazard. Maintenance director has informed the Auditors that this issue will be addressed with those tenants.</li> <li>3. The Gables West building kitchen floor drainage trap was raised with broken tile surrounding the drain presenting a potential trip hazard. Documentation was presented during the exit conference indicating that this issue was addressed after the walk-through.</li> <li>4. A Gable East building kitchen storeroom was overfilled with materials and supplies creating restricted fire sprinkler coverage and a potential fire safety issue. Documentation was presented during the exit conference indicating that this issue was addressed after the walk-through.</li> </ol> <p><b>Recommendation</b> - Specifically for the South Port Square property, property management should: inventory the supply of used paint cans for removal from the property by a hazardous waste company; contact tenants with storage cages in the maintenance building and inform them of the need to remove potential hazardous and flammable materials; and consistently monitor the Gable East building kitchen storerooms to ensure that stored materials and supplies do not restrict fire sprinkler coverage.</p>	<p><b>7. (VI) SHP Asset Management LLC response ,</b></p> <p>"1. Johnson Ezell has since completed the removal of all used paint cans from the property.</p> <p>2. Tenants removed such hazardous and flammable materials.</p> <p>3. Storerooms are being monitored to ensure fire sprinkler coverage is not being impeded."</p>	<p><b>7. <u>PENDING</u>:</b> The Auditors concur with SHP's planned corrective actions.</p>

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<b>AEW Capital Management, LP.</b>  <b>General Partner Level</b>	<p><b>1. (II) Insurance Requirements</b> - The Auditor noted that the following insurance coverages did not meet the minimum requirements of Exhibit E to the Agreement. General Liability - coverage for the period of 12/25/02 through 2/1/04 contained \$1,000,000 per occurrence and \$2,000,000 in the aggregate. Excess liability coverage amounted to \$25,000,000 per occurrence and \$25,000,000 in the aggregate. Auto Liability - coverage for the period of 12/25/02 through 2/1/04 contained \$1,000,000 per occurrence. The minimum insurance requirements as listed in Exhibit "E" of the Agreement, include but are not limited to, \$5,000,000 in excess auto liability coverage and \$50,000,000 umbrella liability coverage per occurrence and in the aggregate. Additionally, if property management transports residents in company vehicles, then the minimum auto liability coverage shall be increased to \$50,000,000 total combined single limit each accident.</p> <p><b>Recommendation</b> - The Auditors recommended that AEW obtain written approval from CalPERS for all liability insurance coverages that deviate from the minimum requirements set forth in Exhibit E of the Agreement.</p>	<p><b>1. (II) AEW Capital Management, LP response</b>, "Going forward, AEW will obtain written approval from CalPERS for all liability insurance coverages that deviate from the minimum requirements set forth in the agreement between CalPERS and AEW."</p>	<p><b>1. <u>PENDING:</u> (II) -</b> The Auditor concurred with the corrective action plan proposed by AEW.</p>

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<b>AEW Capital Management, LP</b>  <b>General Partner Level</b>	<b>2. (III) Asset Management Fees</b> - During the testing of fees earned by AEW through September 30, 2003, the Auditor noted that in addition to project oversight fees charged on speculative development projects, AEW had also accrued \$188,338 in asset management fees for those projects which no certificate of occupancy had been received. Exhibit "H" #3 of the Agreement states in part, "Manager shall not be entitled to an Asset Management Fee for a Speculative Development Project under development for which the Manager is also entitled to a Project Oversight Fee until such time as the Project obtains a certificate of occupancy."	<b>2. (III) AEW Capital Management, LP response</b> , "AEW reimbursed CalPERS in March 2004 for the overpayment related to the 2003 asset management fees and subsequently posted adjusting entries to correct the over accrual. Going forward, AEW will not accrue asset management fees on new construction projects that are being charged an oversight fee until the property obtains a certificate of occupancy. All asset management and oversight fees for construction projects will be calculated in accordance to the LLC agreement between CalPERS and AEW."	<b>2. <u>PENDING:</u> (III)</b> The Auditor concurred with AEW's corrective actions.

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<b>AEW Capital Management, LP</b>  <b>General Partner Level</b>	<p><b>3. (V) Competitive Bidding</b> - During the review of the Sunrise of Seal Beach and Woodland Hills investments, the Auditor noted that Suffolk Construction Company was retained as the general contractor for all Sunrise Assisted Living Centers under development in the AL-US Development Venture, LLC. In addition, Suffolk was not selected through a competitive bidding process. The CalPERS' Responsible Contractor's Program Policy included as Exhibit "L" Section III.D to the Agreement states in part "Advisors and their subcontractors shall create a bidding process that includes notification and invitations to bid, distributed to a broad spectrum of potential bidders, particularly those identified as Responsible Contractors." Based on discussions with AEW, the Auditor noted that Suffolk Construction was retained based on their expertise and prior experience building assisted living properties in the portfolio.</p> <p><b>Recommendation</b> - The Auditors recommended that Sunrise and AEW facilitate a competitive bidding process on all future contracts in accordance with the CalPERS' Responsible Contractor's Program Policy as stipulated in Exhibit "L" Section III.D of the Agreement. The Auditor further recommended that AEW provide a format for its property managers to summarize the competitive bidding process used. For instance, the proposing contractors, selected contractor, and the criteria used to select the chosen contractor should be summarized and retained.</p>	<p><b>3. (V) AEW Capital Management, LP response</b> , "Suffolk Construction was actually selected through a formal competitive bidding process for the construction of Sunrise of Seal Beach. Sunrise, our joint venture partner retained Suffolk Construction as the G/C as its bid was clearly superior compared to other contractors. Based on that bid, Sunrise negotiated with Suffolk as to the construction of Woodland Hills."</p> <p>"Specifically, Sunrise requested that Suffolk construct Woodland Hills at rates similar to those used in Seal Beach. The rates used in Seal Beach were lower than normal as there were two buildings being constructed simultaneously. As Suffolk was able to provide rates comparable to those used in the Seal Beach project, the Woodland Hills project was awarded to them. In the future, AEW will ensure that all contractors be selected through a competitive bidding process and that the property management retains a summary of the process. AEW will also provide a format for its property managers to summarize the competitive bidding process used. See Exhibit A for template."</p>	<p><b>3. PENDING: (V)</b> Based on their review of the Summary of Competitive Bidding attached as Exhibit A to AEW's response, the Auditor concurred with the corrective action plan proposed by AEW.</p>

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<b>AEW Capital Management, LP</b>  <b>Sunrise Senior Living</b>  <b>Property Management Level</b>	<p><b>4. (V) Portfolio Diversification</b> - Upon review of the September 30, 2003 Quarterly Report, the Auditor noted that the portfolio composition consisted of 22% in speculative development projects. This is not consistent with Exhibit B of the Agreement which sets the ranges for speculative development projects at 0-10% of the total portfolio composition. Any composition of speculative development projects to the contrary requires CalPERS' specific approval. During their review of the 2004 Annual Business Plan, the Auditor noted that the Business Plan does not document the allocation ranges for stabilized and non-stabilized investments as a percentage of total portfolio value. The Portfolio Manager's Letter does mention the total returns, net of fees, for stabilized and non-stabilized investments.</p> <p><b>Recommendation</b> - The Auditors recommended that AEW obtain specific approval of CalPERS when deviating from the investment guidelines as listed in Exhibit B to the Agreement. The Auditor also recommended that AEW include a chart in the Annual Business Plan documenting the diversification of stabilized versus non-stabilized investments as a percentage of total portfolio value.</p>	<p><b>4. (V) AEW Capital Management, LP response</b> , "AEW will obtain written approval from CalPERS before deviating from CalPERS' investment guidelines. AEW will include a pie chart in all future Annual Business Plans showing the stabilized and non-stabilized investments as a percentage of the total portfolio value."</p>	<p><b>4. PENDING:</b> (V) - The Auditor concurred with the corrective action plan proposed by AEW.</p>

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<b>AEW Capital Management, LP</b>  <b>Sunrise Senior Living</b>  <b>Property Management Level</b>	<p><b>1. (IV) La Costa - Rent Roll Report</b> - During the review of selected resident lease files, the Auditor noted a minor discrepancy regarding the daily rental rate for unit #136. The rent roll report stated that the daily rental rate for this unit was \$116, however, the lease file documented this rate at \$121. Based on discussions with the Executive Director, it appears that the rent roll report had not been updated as of December 31, 2003.</p> <p><b>Recommendation</b> - The Auditor recommended that property management conduct periodic reconciliations of the rent roll report to the resident lease files.</p>	<p><b>1. (IV) AEW Capital Management, LP response</b>, "The rent roll has been updated to reflect the new daily rate. Going forward, AEW will ensure that all property managers conduct reconciliations of the rent roll to the resident file on a quarterly basis."</p>	<p><b>1. <u>PENDING</u>:</b> (IV) The Auditor concurred with AEW's corrective actions.</p>
<b>AEW Capital Management, LP</b>  <b>Sunrise Senior Living</b>  <b>Property Management Level</b>	<p><b>2 (V) La Costa and La Jolla - Resident Income Verifications</b> - Based on the Auditor's review and inquiries with property management, it was noted that credit investigations and income verifications are not performed as part of management's consideration of new residents.</p>	<p><b>2. (V) AEW Capital Management, LP response</b>, "Although investigations and income verifications are routinely conducted on prospective tenants for residential and commercial spaces, it is an industry practice not to perform such verifications for senior housing residents."</p> <p>"The rationale for this is evident by the historically bad debt ratios which have been lower than 0.5% of gross revenues throughout the portfolio on a consistent basis. AEW believes that bad debt in the portfolio is not a significant issue and that the practice used with multi-family assets should not be applied to this asset type."</p>	<p><b>2. <u>PENDING</u>:</b> (V) Notwithstanding AEW's response, the Auditor continues to recommend that property management document income verifications for each new resident.</p>

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<b>AEW Capital Management, LP</b>  <b>Sunrise Senior Living</b>  <b>Property Management Level</b>	<b>3. (VI) La Costa - Documentation of Competitive Bidding Process</b> - Based on inquiries made with the property's Executive Director, the Auditor noted that the only third party vendor routinely retained by management is the landscaping company. This contract recently went out for bid and was awarded to the previously retained contractor. However, no documentation of the bidding process was retained.  <b>Recommendation</b> - The Auditor recommended that property management retain a summary of the competitive bidding process used. For instance, the proposing contractors, selected contractor, and the criteria used to select the chosen contractor should be summarized and retained.	<b>3. (V) AEW Capital Management, LP response</b> , "In the future, AEW will ensure that all contractors be selected through a competitive bidding process and that the property management retains a summary of the process. AEW will also provide a format for its property managers to summarize the competitive bidding process used."	<b>3. PENDING:</b> (VI) Based on the review of the Summary of Competitive Bidding attached as Exhibit A, the Auditor concurred with AEW's planned corrective action.
<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<b>1. (II) Insurance Requirements</b> - The insurance coverages maintained through February 1, 2004 for general liability and auto liability did not meet the minimum requirements set forth in Exhibit E to the AEW Senior Housing Limited Liability Company Agreement. See the finding and recommendation #1 at the General Partner Level.	<b>1. (II) AEW Capital Management, LP response</b> , "Going forward, AEW will obtain written approval from CalPERS for all liability insurance coverages that deviate from the minimum requirements set forth in the agreement between CalPERS and AEW."	<b>1. PENDING:</b> (II) The Auditor concurred with the corrective action plan proposed by AEW.

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<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<p><b>2. (IV) Property Management Fees</b> - During the review of property management fees, the Auditor noted that our sampled management fee calculation for the month of December 2003 was erroneously overcharged by \$3,600. This was due to the inclusion of Member Club Fees in the total monthly collections. According to section 15 (c) of the property management agreement, fees for the Member Service Club should be excluded from Gross Revenues for purposes of calculating the property management fee.</p> <p>As a result, the Auditors expanded their sample to the entire calendar year of 2003. Member Service Club earnings were included in each month's gross revenues. Therefore, the overcharged property management fees for the year 2003 totaled \$19,250.</p> <p><b>Recommendation</b> - The Auditors recommended that property management credit the property's 2004 management fees in the total amount of \$19,250. We further recommend that future management fee calculations exclude Member Service Club earnings in accordance with section 15(c) of the property management agreement.</p>	<p><b>2. (IV) AEW Capital Management, LP response</b>, "Per section 15(b) of the management agreement between Tradition Senior Housing and the property manager, gross revenue means all revenues collected from operating the property and include not only income from rents but also any ancillary revenues such as non-refundable community fees (or initiation fees)."</p> <p>"Although section 15(c) stipulates that gross revenue shall exclude initiation fees for Member Service Club, the agreement is actually referring to the collection of initiation fees which are not recognized as income upon receipt but are amortized over a five year period. The initiation fees included in the gross revenue basis used in our computation of management fees represents initiation fees earned at each lease renewal, not initiation fees collected during the month."</p> <p>"Thus, AEW believes that the calculation of management fees should include Member Club Service Earnings as part of gross revenue and is in accordance to the agreement between Tradition Senior Housing and the property manager."</p>	<p><b>2. <u>PENDING:</u></b> (IV) Section 15(c) of the property management agreement does not qualify excluded Member Service Club fees as those fees that are amortized over time.</p>

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<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<p><b>3. (IV) Rent Roll Report</b> - During the review of selected resident lease files, the Auditor noted a minor discrepancy regarding the base rent for unit #113-G. The rent roll report stated that the base rate for this unit was \$2,506, however, the lease file documented the monthly rate at \$2,550. Based on discussions with the Chief Financial Officer, it appears that the rent roll report had not been updated as of December 31, 2003.</p> <p><b>Recommendation</b> - The Auditors recommended that property management conduct periodic reconciliations of the rent roll report to the resident lease files.</p>	<p><b>3. (IV) AEW Capital Management, LP response</b>, "The rent roll has been updated to reflect the new daily rate. Going forward, AEW will ensure that all property managers conduct reconciliations of the rent roll to the resident file on a quarterly basis."</p>	<p><b>3. PENDING:</b> (IV) The Auditor concurred with AEW's corrective actions.</p>
<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<p><b>4. (V) Resident Income Verifications</b> - Based on their review and inquiries with property management, the auditor's noted that credit investigations and income verifications are not performed as part of management's consideration of new residents.</p>	<p><b>4. (V) AEW Capital Management, LP response</b>, "Although investigations and income verifications are routinely conducted on prospective tenants for residential and commercial spaces, it is an industry practice not to perform such verifications for senior housing residents."</p> <p>"The rationale for this is evident by the historically bad debt ratios which have been lower than 0.5% of gross revenues throughout the portfolio on a consistent basis. AEW believes that bad debt in the portfolio is not a significant issue and that the practice used with multi-family assets should not be applied to this asset type."</p>	<p><b>4. PENDING:</b> (V) Notwithstanding AEW's response, the Auditor continues to recommend that property management document income verifications for each new resident.</p>

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<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<b>5. (VI) Third Party Contract Files</b> - Documentation of Competitive Bidding Process - the Auditor noted that four out of the four contract files tested did not contain documentation of a competitive bidding process in accordance with section III. D. of Appendix Five to the property management agreement.  <b>Recommendation</b> - The Auditor recommended that property management retain a summary of the competitive bidding process used in all contractor files. For instance, the proposing contractors, selected contractor, and the criteria used to select the chosen contractor should be summarized and retained.	<b>5. (VI) AEW Capital Management, LP response</b> , "In the future, AEW will ensure that all contractors be selected through a competitive bidding process and that the property management retains a summary of the process. AEW will also provide a format for its property managers to summarize the competitive bidding process used. See Exhibit A for template."	<b>5. <u>PENDING:</u></b> (VI) Based on the review of the Summary of Competitive Bidding attached as Exhibit A, the Auditor concurred with AEW's planned corrective action.
<b>AEW Capital Management, LP</b>  <b>The Ryerson Company</b>  <b>Property Management Level</b>	<b>6. (VI) Third Party Contract Files – Non-Discrimination Clause</b> - The Auditors noted that four out of the four contracts tested did not contain a non-discrimination clause. Section 7.11 of the AEW Senior Housing Limited Liability Company Agreement requires that all contracts of AEW and its agents contain such a clause.  <b>Recommendation</b> - The Auditors recommended that property management under the direction of AEW include a non-discrimination clause in all service contracts in accordance with section 7.11 of the AEW Senior Housing Limited Liability Company Agreement.	<b>6. (VI) AEW Capital Management, LP response</b> , "AEW will ensure that all new contracts will include a non-discrimination clause as required by the LLC agreement between CalPERS and AEW. See Exhibit B."	<b>6. <u>PENDING:</u></b> (VI) Based on the review of the Non-Discrimination Clause attached as Exhibit B, the Auditor concurred with AEW's planned corrective action.

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<b>Global Innovation Partners, LLC</b>  <b>General Partner Level</b>	<p><b>1. (III) Asset Management Fee Calculation</b> - Based on the Auditors review of the asset management fees payable to Global Innovation Partners, LLC, it was noted that quarterly asset management fees to date have been calculated based on the CalPERS and Global Innovation Partners, LLC, capital commitments totaling \$526,315,789. According to Exhibit E of the Agreement, the asset management fee shall be equal to 1.25% of the CalPERS Capital Commitment (\$500,000,000) during the Investment Period. Based on an amendment to the Agreement dated June 24, 2002, the Investment Period has been extended to February 28, 2005. CB Richard Ellis Investors has documented in an email dated March 21, 2003, that CB Richard Ellis Investors recognizes that Exhibit E to the Agreement does not require CB Richard Ellis Investors to pay an asset management fee to Global Innovation Partners, LLC. However, CB Richard Ellis Investors has chosen to do so in an effort to provide consistency amongst their co-investment initiatives. CB Richard Ellis Investors stated that the aforementioned email shall act to amend the terms of Exhibit E of the Agreement.</p> <p><b>Recommendation</b> - The Auditors recommended that the terms of Exhibit E be amended, with CalPERS' approval, to include Global Innovation Contributors, LLC, capital commitment in the calculation of the asset management fees payable to Global Innovation Partners, LLC. In the absence of an amendment approved by CalPERS, the Auditors recommended that all asset management fees be recalculated based on terms of Exhibit E and refunded by Global Innovation Partners, LLC, accordingly.</p>	<p><b>1. (III) Global Innovation Partners, LLC, response</b> , "As noted in the report, Exhibit E of the Agreement provides for the calculation of fees based upon PERS' contribution of \$500 million. It was not the intent to charge CalPERS for asset management services, while providing those same services to CB Richard Ellis for no charge. That would be in direct conflict with our role as a fiduciary, particularly given that GI Partners is affiliated with CB Richard Ellis. Indeed, CB Richard Ellis has always insisted that they stand side-by-side CalPERS as a co-investor in the fund in respect of all the obligations and benefits, including the payment of management fees."</p> <p>"We determined that the most effective remedy to this omission in the LLC Agreement was to obtain email approval from CB Richard Ellis management authorizing the Fund to charge CB Richard Ellis for management fees quarterly in the same manner as is done with CalPERS. This was done with CalPERS' knowledge, and is reflected in every quarterly billing via the attached invoice and backup calculation (Exhibit A). The invoice and backup calculation, which is provided to CalPERS quarterly, clearly itemizes the management fee between CalPERS' and CB Richard Ellis' share."</p> <p><b>INVO Response:</b> An amendment to Schedule E is in process to document the payment of management fees by Global Innovation</p>	<p><b>1. PENDING:</b> - Notwithstanding Global Innovation Partners, LLC's, response, the Auditors continue to recommend that the Agreement be formally amended to document the calculation of asset management fees that differ from the terms set forth in Exhibit E.</p>

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		Contributors, LLC.	
<b>CIM Group</b>  <b>General Partner Level</b>	<p><b>1. (II) Information Technology</b> - Based on inquiries made with the Director of Technology and other CIM management staff, the Auditor determined that CIM does not have complete and formal written procedures documenting the information technology disaster recovery and business resumption plans.</p> <p>CIM currently has plans in place that mirror the J2 Global Communications company plan. J2 Global Communications occupied office space in the same building as CIM and until last year, CIM used J2's server. Due to the growth of CIM and J2, CIM moved to its own server, network, and email in January 2004. According to CIM, J2 has engaged a consultant to assess its systems and business continuity plans. CIM plans to engage this consultant upon their completion of the J2 assignment.</p> <p>CIM's Director of Technology was interviewed and explained the current business resumptions processes. A formal written procedures manual is planned after completion of a consultant's review and recommendations for improvement.</p> <p><b>Recommendation</b> - The Auditors recommended that CIM prepare and distribute complete written procedures of the information technology disaster recovery and business resumption plans to the appropriate management personnel within the company.</p>	<p><b>1. (II) CIM Group response</b> , "As indicated in the Findings, CIM Group will work with a consultant to develop and implement a disaster recovery and business resumption plan. CIM agrees with the recommendation to prepare and distribute a written procedures manual to the appropriate management personnel, and will do so once the plan has been finalized."</p> <p><b>INVO:</b> CIM is currently developing a disaster recovery and business resumption plan and will prepare a written procedures manual. CIM is targeting the end of September 2005 for distribution of the manual.</p>	<p><b>1. (II) PENDING -</b> The Auditor concurs with the corrective action plan proposed by CIM.</p>

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<b>CIM Group</b>  <b>General Partner Level</b>	<p><b>2. (III-A) Leasing Commissions</b> - The Auditors selected all leasing commissions paid during the 4th quarter of 2003 totaling \$20,289 for testing. Commissions paid in the 4th quarter of 2003 represented the lease of unit #1100 at 655 S. Hope Street executed on 11/25/03. This commission was calculated based on the Exclusive Listing Agreement ("Listing Agreement") for 655 S. Hope Street.</p> <p>Section 9 of the Listing Agreement states that commissions are payable at 6% of base rent for years 1 to 5. This contract term contradicts the Fund's Agreement Annex D-1, which states that lease commissions are payable at 4% of base rent for years 1 to 5.</p> <p>For lease transactions with a participating broker, the Fund's Agreement allows a commission payable at 150%, with a full commission to the participating broker and 50% to the management company or affiliate of the general partner. Based on the Auditors' review of the commission invoice and discussion with CIM, it was noted that this lease transaction did not include a participating broker.</p> <p>In the absence of an amendment to the Fund's Agreement, it appears that leasing commissions have potentially been overpaid in the amount of \$6,763.</p> <p>Based on the above discrepancy, the Auditors selected two additional quarters' leasing commission costs for review and noted no exceptions.</p>	<p><b>2. (III-A) CIM Group response,</b> "We note your finding of a discrepancy between the leasing commission paid to CIM Group for a new tenant at 655 South Hope Street, and the amount payable to CIM Group permitted by Annex D. The leasing commission agreement for this property assumed that there would be a participating broker, however, for this particular tenant, none was involved. The language of the agreement did not anticipate such a circumstance. We have modified our leasing commission agreement form to take such cases into consideration so that the proper amounts are paid, as permitted under Annex D.</p> <p>A new agreement has now been executed for this property and the amount of \$6,763 has been refunded from CIM Group to the Fund.</p> <p>All other leasing commission agreements between the Fund and CIM Group have also been reviewed and no other discrepancies were noted. Leasing commissions are correctly set forth in Annex D to the Fund's Limited Partnership Agreement and no amendment to Annex D is currently necessary."</p> <p><b>INVO:</b> The Investment Office agrees with CIM's corrective action plan, including the refunding of the overpayment of \$6,763.</p>	<p><b>2. (III-A) – PENDING:</b> The Auditors concur with CIM's corrective actions.</p>

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<b>CIM Group</b>  <b>General Partner Level</b>	<p><b>4. (V-A) Competitive Bidding</b> Based on the Auditors' review and inquiries made with CIM management personnel, it was determined that CIM did not document the process used when selecting the general contractor, Swinerton Building Co. for the Gas Company Lofts project. Furthermore, the selection process used to retain property management companies and leasing agents has not been documented.</p> <p>Based on inquiries made with CIM management personnel, it was noted that CIM selects its property management companies and leasing agents based on the asset type and the management company's prior experience within the respective market area. According to CIM, a draft competitive bidding policy has been written and is under review by their legal staff.</p> <p><b>Recommendation</b> - The Auditors recommended that CIM retain a summary of the competitive bidding process used. For instance, the proposing contractors, selected contractor, and the criteria used to select the chosen contractor should be summarized and retained.</p> <p>In those cases when a selected property management company or leasing agent is chosen without a competitive bidding process, the Auditors recommends that the selection criteria and underlying research used to support the decision to retain such contractor be documented in the contractor file. When the selected contractor is an affiliate or member of the</p>	<p><b>4. (V-A) CIM Group response,</b> "CIM selects contractors, management companies and leasing agents through processes that it believes provide the appropriate services at the most competitive cost.</p> <p>As indicated in your summary, CIM has drafted a competitive bidding policy and is in the process of obtaining legal and senior management review. We agree with your recommendation that CIM should retain summaries of competitive bidding processes used, contractors selected and the criteria for selection.</p> <p>We also agree with your recommendation that CIM document the selection criteria and underlying research used in those cases when a property management company or leasing agent is selected without a competitive bidding process. We are amending contract procedures to include appropriate summaries."</p> <p><b>INVO:</b> CIM is amending its procedures to document the selection criteria used in choosing contractors. In addition, CIM is reviewing a draft of the competitive bidding policy which should be completed by June 2005.</p>	<p><b>4. (V-A) PENDING -</b> The Auditors concur with CIM's corrective actions.</p>
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	CIM Group, such documentation should include criteria demonstrating that the terms of the contract are fair and reasonable and no less favorable to CIM than would be if a comparable qualified and unaffiliated third party had been selected.		

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<b>CIM Group</b>  <b>Gas Company Lofts</b>  <b>(Swinerton Builders - General Contractor)</b>	<p><b>8. Overstatement of Salary and Burden</b> - Five monthly draws submitted to CIM by Swinerton Builders ("Contractor") were sampled for payroll cost testing.</p> <p>The Auditors were provided a payroll billing spreadsheet prepared by the Contractor that was used to calculate the employee costs charged to the project. The Auditors agreed the number of hours reported on the overhead allocation worksheets to employee timesheets on a test basis, without exception. However, it was noted that salary and burden rates charged to the project were based on estimates and not on actual costs incurred by the Contractor.</p> <p>Article 7.1 of Cost plus fee Guaranteed Maximum Price construction contract dated September 30, 2002 ("Contract") states in part, "The term Cost of Work shall mean costs necessarily incurred by the Contractor..." "As used herein, the term "costs" shall mean actual costs paid or payable by the Contractor less all discounts, rebates and salvage obtained pursuant to the terms contained in Article 9."</p> <p>Allowable payroll burden costs are defined in Article 7.2.4 of the Contract as, "Costs paid or incurred by the Contractor for taxes, insurance, contributions, assessments and benefits required by law or collective bargaining agreements, and, for personnel,...provided such costs are based on wages and salaries included in the Cost of the Work under Subparagraphs 7.2.1 through 7.2.3."</p>	<p><b>8. Swinerton Builders' response,</b></p> <p>1) Group Insurance - "The correct amount of the employers portion is indicated on the wage and burden reports provided to you."</p> <p>2) Workers Compensation – "Your calculation is based on using the Executive Supervision rate of 6.21%. The Concrete NOC (Not Otherwise Classified) rate of 19.66% used to calculate Swinerton Builders billing rate, was determined as follows: Swinerton Incorporated has an agreement with the Workers Compensation Insurance Rating Bureau to use the governing class codes for each project. In this case, the governing classification was Concrete NOC (Not Otherwise Classified). I will follow up with a copy of the Workers Compensation policy along with the manual rates and California modifiers."</p> <p>3) Retirement – "The 6% of employees' salaries for retirement benefits on the wage and burden reports are correct. However, this rate does not include discretionary bonuses for management employees. Therefore, 8% was used to calculate the Swinerton Builders billing rate."</p> <p>4) Truck Charges – "The documentation that Swinerton Builders provided to you supported a charge of \$6.05 per hour. This was a rental rate to the job that does not include maintenance</p>	<p><b>8. PENDING</b> - The Auditors responded as follows:</p> <p>1) Group Insurance - "Our finding remains as stated."</p> <p>2) Workers' Compensation - "In the absence of premium invoices or prior written approval from CalPERS, we continue to question the classification of management and administrative staff as 'Concrete NOC' (Not Otherwise Classified) for purposes of charging workers' compensation insurance."</p>

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<b>CIM Group</b>  <b>Gas Company</b> <b>Lofts</b>  <b>(Swinerton</b> <b>Builders -</b> <b>General</b> <b>Contractor)</b>	<p><b>8. Overstatement of Salary and Burden (cont.)</b>  As a result of the discrepancies noted from the five sampled draws, the Auditors expanded their sample to include draws 1 through 15. The Auditors calculated actual salary and burden costs for each administrative employee using the "gross wages and burden report". The Auditors then compared the calculation to what was actually charged to the project. It was noted that total payroll costs reported on each draw were higher than the costs reported on the "gross wage and burden report". Accordingly, the Auditors have questioned administrative salary and burden costs in the total amount of \$222,368 (see Exhibits II and V through VII in the bound report).</p> <p>The total questioned costs are detailed as follows:  1) Salaries and Wages - the Auditors scheduled actual base salaries and auto allowances by employee for comparison to the Contractor's billing rates without material exception. Overstatements and understatements of base salaries were included in the summarized Exhibits V through VII to the report.</p> <p>2) Group Insurance - the Auditors noted that Group Insurance rates charged to the project were based on estimated insurance premiums and not on actual costs incurred. Using the Contractor's Wage and Burden reports, the Auditors documented actual insurance costs by employee for inclusion in the comparative Exhibits V through VII to the report.</p>	<p>costs. Therefore, \$6.25 per hour was used to calculate the Swinerton Builders billing rate."  <b>8. Swinerton Builders' response,(con't)</b>   5) Gas Charges - "Support for gas charges were not provided because the \$2.55 per hour is included in the Swinerton Builders billing rate. Swinerton Builders will provide copies of Chevron Gas Charges billings to support these costs."</p> <p><b>INVO:</b> The responses above are Swinerton Builder's and were not written by CIM. CIM agrees that the auditor's comments are reasonable and will work with Swinerton to resolve these audit exceptions.</p>	<p>3) Retirement - "As the wage and burden reports represent actual costs incurred, we continue to recommend that retirement costs accrued over and above the costs incurred be refunded to the project."</p> <p>4) Truck charges - "We continue to question truck charges over and above actual costs incurred. Our finding remains as previously stated."</p> <p>5) Gas charges - "Our finding remains as previously stated."</p>

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<b>CIM Group</b>  <b>Gas Company Lofts</b>  <b>(Swinerton Builders - General Contractor)</b>	<p><b>8. Overstatement of Salary and Burden (Cont. )</b></p> <p>3) Workers' Compensation - the Auditors noted that workers' compensation rates for all management and administrative staff were billed to the project at 19.66% of their base salary. Copies of insurance premium invoices were not provided. As a result, the Auditors were unable to verify actual costs incurred, net of experience modifiers. Therefore, the workers' compensation rates were reduced to the Administrative rate of 6.21%, as documented on the Contractor's Corporate California rate sheet.</p> <p>4) Retirement - the Auditors noted that the Contractor's billing rate of 8% for retirement costs did not represent actual costs incurred. Based on their review of the Wage and Burden reports, the billing rate for retirement costs was reduced to 6%.</p> <p>5) Truck charges - based their review of the Wage and Burden reports, the Auditors reduced the hourly billing rate for management vehicles from \$6.25 to \$6.05.</p> <p>6) Gas charges - supporting documentation for the hourly gas billing rate of \$2.55 was not provided upon request. As a result, the Auditors question all gas charges.</p>		

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<b>First Washington Realty, Inc. -</b>  <b>General Partner Level</b>	<b>1. (II) Information Technology Internal Control System -</b> First Washington Realty, ("Advisor") has not formalized its information technology security measures and disaster recovery and business resumption plans into a written document, shared with all employees.  Advisor has not finalized the operations of its Alexandria, VA. computer system "hot site".  Advisor does not require users to periodically change computer access passwords.	<b>1. (II) First Washington Realty, Inc. (FWR) response,</b> Written disaster recovery and business resumption plan is in draft and under review by management.  Computer 'hot site' has been established and now backed-up weekly to an "Iron Mountain" secure facility.  Advisor agrees to consider changing computer passwords more frequently.	<b>1. <u>PENDING:</u></b> (II) - The Auditors concur with the Advisor's corrective actions regarding the disaster recovery and business resumption plan. Auditor continues to recommend more frequent changes to computer passwords.
<b>First Washington Realty, Inc. -</b>  <b>General Partner Level</b>	<b>2. (III) Asset Management Fees for Previous Advisor (National Retail Partners) –</b>  Previous western properties portfolio advisor, National Retail Partners ("NRP"), failed to provide required accounting information when portfolio properties were transferred in May 2003, to First Washington. The Auditors could not reconcile differences between the NRP appraised value and the value used by First Washington Realty, or recalculate prior NRP asset management fees.	<b>2. (III) First Washington Realty, Inc.,</b> has received all pertinent financial information from NRP and reviewed audit workpaper files of the NRP's auditors (Ernst & Young).	<b>2. <u>PENDING:</u></b> (III) The Auditors concur with the Advisor's corrective actions.

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<b>First Washington Realty, Inc. -  General Partner Level</b>	<b>3. (VI-A) Sale of Bryan's Road Shopping Center -</b> September 30, 2003 general ledger and CalPERS' distribution documents indicate a difference of \$1,980 between \$7,903,052 received by Advisor and the payment amount in closing documents related to a bridge loan associated with the sale of the property. Difference of \$1,980 is not reflected in the general ledger or distribution to CalPERS.	<b>3. (VI-A) First Washington Realty, Inc.</b> indicates the \$1,980 difference may be due to an accounting error but is not a result of an underpayment of funds.	<b>3. <u>PENDING:</u></b> (VI-A) Notwithstanding the Advisor's response, Auditors continue to recommend the amount recorded in the general ledger be reconciled to the loan's closing statement or be refunded to CalPERS.
<b>First Washington Realty, Inc. -  General Partner Level</b>	<b>4. (VI-B) Sale of Young's Bay Shopping Center by Previous Advisor (NRP)</b> - Advisor did not receive supporting records for the disposition of the Young's Bay property from the previous advisor, NRP.  Without records, the Auditors were unable to determine if the previous advisor complied with its CalPERS Agreement for the distribution of proceeds and disposition fees relating to the Young's Bay property.	<b>4. (VI-B) First Washington Realty, Inc.,</b> received backup records from NRP for the settlement and has reviewed the NRP auditors' (Ernst & Young) workpapers.	<b>4. <u>PENDING:</u></b> (VI-B) - The Auditors concur with management's corrective actions.
<b>Trammell Crow Company - Property Management Level  Cherrywood Square</b>	<b>1. (IV) Deficiency Noted in a Tenant Security Deposit -</b> A tenant's deposit of \$2,251.67 is being held by the property manager although the current lease agreement indicates the required security deposit is \$0.00. Prior leases agreements required a security deposit from the tenant.	<b>1. (IV) First Washington Realty, Inc.</b> is currently researching this issue and will make appropriate adjustments.	<b>1. <u>PENDING:</u></b> (IV) The Auditors concur with the Advisor's corrective action plan.

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Partner/Property	Auditor's Finding and Recommendation	Status per Investment Office	Auditor Comment
Trammell Crow Company - Property Management Level  Cherrywood Square	<b>2. (V) Deficiencies Noted in Tenant Insurance Coverage –</b> 1) The insurance certificate for one tenant did not name CalPERS or the Advisor as additional named insured.  2) The insurance certificate for two tenants did not include evidence of coverage for Workers' Compensation or property insurance.  3) No insurance certificate existed in the property manager's file for one tenant.	<b>2. (V) First Washington Realty, Inc.</b> indicates property managers will ensure all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates will be retained at the property.	<b>2. <u>PENDING:</u></b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.
Trammell Crow Company - Property Management Level  Cherrywood Square	<b>3. (VI) Deficiencies Noted in Exterior Maintenance –</b> Center's parking lot displayed extensive cracking, several low spots, fractured concrete behind King Soopers, asphalt and curb deterioration in the three driveway entries, and the loosening of surface aggregate throughout the lot. Surface deterioration and cracking of walkways was noted throughout the center.  King Soopers' displays are partially blocking a fire lane in front of the store and access at the rear.	<b>3. (VI) First Washington Realty, Inc.</b> indicates the property manager will regularly contact King Soopers' manager to ensure fire lanes and access are not blocked and grocery carts will be collected regularly. First Washington has provided a plan for correction of parking lot deficiencies and budgeted for the repair of all pavement related items, i.e. replacing rear concrete behind King Soopers, resurfacing fire lanes and mill and overlay the parking field to be completed in 2005.	<b>3. <u>RESOLVED:</u></b> (VI) No further recommendations considered warranted.
First Washington Realty, Inc. – Property Management Level  Cloppers Mill Village	<b>1. (V) Deficiencies Noted in Tenant Insurance Requirements –</b> 1) Insurance certificates for multiple tenants do not name CalPERS or the Advisor as additional insured.  2) The insurance certificate for one tenant did not include sufficient property damage insurance to comply with lease agreement requirements of \$1,000,000 in property coverage.	<b>1. (V) First Washington Realty, Inc.</b> indicates property management will be required to ensure all tenants obtain minimum required insurance coverages and retain evidence of coverage for all tenants at the property.	<b>1. <u>PENDING:</u></b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.

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	3) The insurance certificate for one tenant did not include evidence of coverage for Workers' Compensation coverage.		
<b>First Washington Realty, Inc. – Property Management Level – Cloppers Mill Village</b>	<b>2. (VI-1) Deficiencies Noted regarding Third Party Contractor Files</b> - The insurance certificate for Laytonsville Contractors did not name CalPERS or Advisor as an additional insured.	<b>2. (VI-1) First Washington Realty, Inc.</b> indicates contractor will be required to obtain a revised certificate of insurance naming CalPERS and the Advisor as an additional insured.	<b>2. <u>PENDING:</u> (VI-1)</b> No comments by the Auditor. Corrective action to be completed by the Advisor.
<b>First Washington Realty, Inc.– Property Management Level  Cloppers Mill Village</b>	<b>3. (VI-2) Deficiencies Noted regarding Third Party Contractor Files</b> - Third party contractor files, did not contain evidence of a competitive bidding process for the Laytonsville Contractors.	<b>3. (VI-2) First Washington Realty, Inc.</b> indicates that although the Laytonsville Contractors were selected through a competitive bidding process and documentation was not in the file, it is First Washington's practice to competitively bid all work performed by third party service providers. They agree documentation of the competitive bidding process and its use in selecting third party contractors should be retained on file at property locations for review by the Owner or Owner representatives.	<b>3. <u>PENDING:</u> (VI-2)</b> The Auditors recommend documentation of the competitive bidding process should be retained on file at property locations for review by the Owner or Owner representatives.
<b>First Washington Realty, Inc.– Property Management Level  Lake Forest Village</b>	<b>1. (IV) Duplicate Invoice Payment</b> – A duplicate payment of a June 2003 invoice for \$3,230 was identified by the Auditors in testing paid invoices.	<b>1. (IV) First Washington Realty, Inc.</b> indicated the vendor has reimbursed the Advisor for the payment error. First Washington indicates its accounting system is designed to identify duplicate payments.	<b>1. <u>RESOLVED.</u> (IV)</b> The Auditors concur with management's corrective actions.

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First Washington Realty, Inc.– Property Management Level  Lake Forest Village	<b>2. (VI-A) Deficiencies Noted in Vacant Spaces</b> Two vacant units at the Lake Forest property were not clean, containing trash on the floor. Another vacant unit was used by property managers as a storage area.	<b>2. (VI-A) First Washington Realty, Inc.</b> indicates First Washington's practice is to maintain all vacant spaces in a clean condition. The three spaces have subsequently been leased or are under construction.	<b>2. <u>RESOLVED:</u></b> (VI-A) Auditor considers additional comments unnecessary.
First Washington Realty, Inc.– Property Management Level  Lake Forest Village	<b>3. (VI-B) Documentation of Competitive Bidding Process -</b> Documentation of the competitive bidding process used in selection of one third party contractor was not located in the contract file. Inquiries of property management determined the contract was not competitively bid.	<b>3. (VI-B) First Washington Realty, Inc.</b> indicates the file was inherited from the previous advisor, but that First Washington's practice is to competitively bid all work performed by third party service providers.	<b>3. <u>RESOLVED:</u></b> (VI-B) Auditor deemed further recommendations unnecessary.
First Washington Realty, Inc.– Property Management Level  Newton Square	<b>1. (IV) Duplicate Invoice Payment -</b> A duplicate payment of an invoice for \$654.29 was identified by the Auditors in testing paid invoices.  Property management indicated that they were going to take a credit on this recurring expense in a subsequent payment to true up the payment stream on this vendor.	<b>1. (IV) First Washington Realty, Inc.</b> indicates the duplicate payment made in July 2003, has been credited back by the vendor. First Washington indicates its accounting system is designed to identify duplicate payments.	<b>1. <u>RESOLVED:</u></b> (IV) The Auditor concurs with management's corrective actions.

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First Washington Realty, Inc.– Property Management Level Newton Square	<b>2. (V) Deficiencies Noted in Tenant Insurance Coverage -</b> Insurance certificates were not current for three tenants and CalPERS and the Advisor were not named as additional insureds on the certificates of insurance.	<b>2. (V) First Washington Realty, Inc.</b> agrees property management should retain current copies of tenant insurance certificates with CalPERS and the Advisor as additional named insureds.	<b>2. <u>PENDING:</u></b> (V) No comments by the Auditor. Corrective action to be completed by the Advisor.
First Washington Realty, Inc.– Property Management Level Newton Square	<b>3. (VI-A) Deficiencies Noted in Exterior Maintenance -</b> Several areas in the parking lot needed patching, repair or replacement.	<b>3. (VI-A) First Washington Realty, Inc.</b> has completed the repair of discrepancies noted in the audit.	<b>3. <u>RESOLVED:</u></b> (VI-A) The Auditors concur with management's corrective actions.
First Washington Realty, Inc.– Property Management Level Newton Square	<b>4. (VI-B) Deficiency Noted in Third Party Insurance Coverage -</b> The certificate of insurance for The Brickman Group did not name CalPERS or the Advisor as additional insureds.	<b>4. (VI-B) First Washington Realty, Inc.</b> indicates the property manager will obtain a revised certificate of insurance from The Brickman Group which names CalPERS and Advisor as additional insureds.	<b>4. <u>PENDING:</u></b> (VI-B) No further recommendations deemed necessary.
First Washington Realty, Inc.– Property Management Level Newton Square	<b>5. (VI-C) Deficiency Noted in Third Party Contract Bids -</b> No documentation for the use of a competitive bidding process in the selection of third party contractors was retained in the third party contract files.	<b>5. (VI-C) First Washington Realty, Inc.</b> indicates it is First Washington's practice to competitively bid all work performed by third party service providers.	<b>5. <u>RESOLVED:</u></b> (VI-C) The Auditors recommend that such documentation be retained on file at the property location for review by the Owner or Owner representatives.

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First Washington Realty, Inc. – Property Management Level  Overlake Fashion Plaza	<b>1. (V) Deficiencies Noted in Tenant Insurance Coverage -</b> The certificate of insurance for one tenant did not contain evidence of workers' compensation and employer liability coverage. An insurance certificate for a second tenant did not name CalPERS as an additional insured.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.	<b>1. <u>PENDING:</u> (V)</b> Auditor deemed further recommendations unnecessary.
First Washington Realty, Inc. – Property Management Level  Overlake Fashion Plaza	<b>2. (VI) Deficiency Noted in Property Maintenance –</b> One tenant's loading dock contained trash and broken pallets. Two truck trailers appeared to be permanently parked at the tenant's location with various materials stored underneath them.	<b>2. (VI) First Washington Realty, Inc.</b> concurs with the finding and Auditor's recommendation that the property manager regularly work with the tenant to clean up the store's exterior appearance.	<b>2. <u>RESOLVED:</u> (VI)</b> No further recommendations deemed necessary.
First Washington Realty, Inc. – Property Management Level  Rivers Edge - Riverside Square	<b>1. (VI) Deficiencies Noted in Exterior Maintenance -</b> Trash receptacles on the property needed replacing, wood trim along the fascia needed repair, barriers are needed in traffic lanes to protect fire hydrants and gas meters, drums of unknown chemicals were stored in the rear of the center, the asphalt was severely derogated, the sidewalks were cracked, and the tenant window signage was poorly maintained. Adjacent properties were poorly maintained and detracted from the appearance of the center.	<b>1. (VI) First Washington Realty, Inc.</b> concurred with the finding and provided a corrective action plan and has budgeted sufficient funds to correct the deficiencies noted by the Auditors. Repairs budgeted for completion in 2004 have been completed. Completion of all repairs is anticipated to take three to five years.	<b>1. <u>RESOLVED:</u> (VI)</b> The Auditors concur with management's corrective actions. No further recommendations are deemed necessary.
First Washington Realty, Inc. –	<b>1. (IV) Deficiency Noted in Common Area Maintenance Reconciliation -</b> The Advisor did not have sufficient	<b>1. (IV) First Washington Realty, Inc.</b> agreed that the previous advisor did not provide sufficient	<b>1. <u>PENDING:</u> (IV)</b> The Auditors concur

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<b>Property Management Level Stanford Ranch Shopping Center</b>	documentation from the previous advisor (NRP) regarding common area maintenance accounting activities to accommodate a review of amounts established as common area maintenance receivables for a tenant selected by the Auditors to test.	documentation. First Washington recalculated, based on a review of tenant leases, all common area maintenance calculations billed to tenants, and established common area maintenance spreadsheets for each shopping center. First Washington's calculations were subsequently tested by PricewaterhouseCoopers during the 2003 year end audit.	with the Advisor's corrective actions.
<b>First Washington Realty, Inc.– Property Management Level Stanford Ranch Shopping Center</b>	<b>2. (V) Deficiency Noted in Tenant Insurance Coverage -</b> Copies of insurance certificates were not retained on file for three tenants. The insurance certificate for an additional tenant did not name CalPERS and the Advisor as additional insured.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.	<b>1. <u>PENDING:</u> (V)</b> Corrective action is to be performed by the Advisor. Auditor deemed further recommendations unnecessary.
<b>First Washington Realty, Inc.– Property Management Level  Stanford Ranch Shopping Center</b>	<b>3. (VI) Property Walk-Through –</b> The existence of numerous maintenance issues detracts from the attractiveness of the property.	<b>3. (VI) First Washington Realty, Inc.</b> concurred with the finding and the Auditor's recommendation that property management and maintenance staff correct the maintenance items noted for the property and take the initiative to identify such items and have them corrected as part of normal maintenance inspections.  First Washington indicates the property manager will continue to be in contact with tenants on a regular basis to identify and correct maintenance issues. Corrections of all noted items noted will be complete by the end of 2005 first quarter.	<b>3. <u>PENDING:</u> (VI)</b> The Auditors concur with the corrective action of management.

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Partner/Property	Auditor's Finding and Recommendation	Status per Investment Office	Auditor Comment
First Washington Realty, Inc.– Property Management Level  The Village Shopping Center	<b>1. (V) Deficiencies Noted in Tenant Insurance Coverage -</b> 1) The certificate of insurance for two tenants indicated coverage was expired. Current certificates of insurance were not on file. 2) The certificate of insurance for another tenant did not include CalPERS and the Advisor as additional named insureds.	<b>1. (V) First Washington Realty, Inc.</b> concurred with the Auditors recommendation that the property manager ensure that all certificates of insurance for tenants contain the minimum requirements as stipulated in the respective lease agreements and copies of such certificates be retained at the property.	<b>1. <u>PENDING:</u> (V)</b> Corrective action is to be performed by the Advisor. Auditor deemed further recommendations unnecessary.
First Washington Realty, Inc.– Property Management Level  The Village Shopping Center	<b>2. (VI) Deficiencies Noted in Exterior Maintenance -</b> The existence of numerous maintenance issues detracts from the attractiveness of the property.	<b>2. (VI) First Washington Realty, Inc.</b> concurred with the finding and the Auditor's recommendation that property management and maintenance staff correct the maintenance items noted for the property and take the initiative to identify such items and have them corrected as part of normal maintenance inspections. First Washington indicates all items noted will be corrected by the end of 2005 first quarter.	<b>2. <u>RESOLVED:</u> (VI)</b> The Auditors concur with management's corrective actions.

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